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SOLUTIONS FOR A RAPIDLY CHANGING WORLD



Maximising IT Investments

BY CAROLINE MONCUR

Companies' investments in IT have significantly increased since the 1960s. Research in the US indicates that spending on IT has increased from 5% of American companies' capital expenditure in 1965, to 15% in the 1980s after the introduction of the PC, to 30% in the early 1990s and to nearly 50% by 2000.

However, research also shows that on average, the companies which are the biggest investors in IT are not the most successful in terms of business performance. IT investments do not automatically translate into improvements in business operations and therefore into growth in revenue or profit.

The 2001 McKinsey Global Institute study "US Productivity Growth 1995 – 2000" highlighted this. The study found a significant positive correlation between IT investments and productivity in only 6 out of 59 industries. The other 53 sectors, or 70% of the economy, in aggregate saw few productivity improvements as a result of their IT investments.

Given this, more recently it has been argued by various researchers that IT has lost its potential to deliver to an organization competitive or strategic advantage.

This approach ignores the fact that it is not IT that bestows strategic advantage; it is the application and management of IT that enables improvements in business performance. The Gartner Group states that "the intelligent and innovative application of information solves business problems and creates customer value at high speed, low cost and the right scale... Sustainable advantage comes from consistently delivering greater value to customers. This comes from the "information" in information technology – that is, it comes from better understanding your customer, applying that understanding to your products, services and processes, and integrating these to deliver on an improved value proposition."

In an attempt to better understand the connection between IT and an organisation's growth, the Keystone Strategy Group recently undertook a global study of IT usage within mid sized (100-500 employees) product, service and financial companies. They focused on how IT was used in the business rather than measuring IT spending. As such, they developed the "IT Scorecard" to measure how IT impacts all major areas of an organization: Sales & Marketing; Finance; Operations; Employee Productivity and IT Infrastructure. The "IT Capability" of an organization was rated based on 40 IT-enabled business processes within each area and a total IT Capability score was derived.

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For example, within Finance, capabilities that were tested included “Easy Period Close”, “Effective Forecasting” and “Complete Insight about my Finances”. Within IT Infrastructure, capabilities included “Pervasive Security” and “Mobile and remote access to information and processes”. Within Sales and Marketing, they included “Customer Self Service” and “Incident and Support Management”.

Their results showed a strong connection between IT capability and profitable business growth. Companies which build high capability IT systems increase revenue and profits faster than companies which do not.

The process that the fastest growing companies used to achieve profitable growth through IT was to closely integrate the design and implementation of critical business processes with the design and implementation of IT capabilities needed to manage these processes. This integration allowed companies to achieve business processes scalability. This provided those firms with:

1. Process standardization
2. Streamlined operations that can grow without staff additions
3. Flexibility to respond to new opportunities and to change
4. Better visibility into business operations

In essence, as with all business success, it is good management that leads to profitable growth. In IT’s case, it is management’s ability to integrate IT into business processes that influence how well IT investments are turned into real business value.

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About the Author:

Ms Caroline Moncur is Manager, Business Development at Providence Technology Group. Ms Moncur has over ten year’s business development experience, primarily within the Information Technology industry. Providence Technology Group is one of the Bahamas’ leading IT firms, specializing in Networking Solutions, Consulting & Advisory Services and Software Solutions.